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Pennsylvania Business Survey

December 1988

TRENDS CONTINUE TO SUGGEST POSITIVE GROWTH

In the most recent issue of the *Pennsylvania Business Survey*, it was suggested that the Commonwealth was entering a period in which growth was likely to slow, but that the overall economy would continue to move forward. An overview of indicators for October does little to change this expected scenario as overall signals were mixed for the month. While nonagricultural job readings were especially encouraging, trends were a bit less positive with respect to resident employment and unemployment, some measures of factory activity, and construction.

Furthermore, **such a scenario is evident in the recent behavior of two widely-followed measures of overall trends: the indices of coincident and leading indicators for the Pennsylvania economy.** The coincident series has now declined two months in a row, although by only the smallest of margins. The leading index has been on an upward trend for the past several months, although again, except for a rather large increase in September, the advances have been relatively minor. Taken together, these two indices, which are perhaps best viewed as qualitative measures of current and expected trends as opposed to precise quantitative tracking mechanisms, suggest that growth is slowing, but that the future is unlikely to bring with it a pronounced slump.

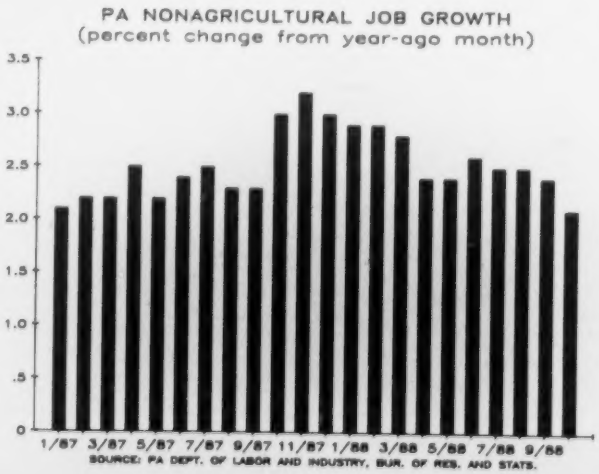
It should be kept in mind, however, that such a scenario is for the economy *as a whole* and does not rule out month-to-month variations in overall trends and in specific indicators. For instance, October brought with it a decline of more than 100,000 in both the labor force and the number of residents counted as employed. In addition, the jobless rate inched upward by an insignificant 0.1 percentage point to a seasonally adjusted 5.5 percent. Employment and unemployment indicators, which typically represent the first bit of economic news each month, suggest a rather dramatic reversal in these trends as employment expanded by an impressive amount and joblessness dropped off considerably in November.

Resident employment growth has slowed considerably in recent months after growing at a fairly rapid pace early on in the year. (Such a trend was first illustrated graphically in the August issue of the *PBS*.) In fact, the 5.48 (unadjusted) Pennsylvanians counted as employed in October is actually off by about 10,000 from year-ago-readings. However, as the accompanying chart shows, **growth in nonfarm jobs, which many analysts contend is a more reliable indicator of employment and job trends than is the resident series, remains fairly impressive and relatively stable.** Since the beginning of 1987, nonagricultural job growth has remained in the 2-3 percent range every month but one, displaying little of the volatility present in the resident series.

Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	*Coincident*	*Leading*	*Coincident*
February	112.1	86.2	−0.2	−0.2
March	111.6	85.7	−0.4	−0.6
April	112.8	85.9	1.1	0.2
May	111.9	85.2	−0.8	−0.8
June	112.1	85.5	0.2	0.3
July	112.1	85.7	0.0	0.3
August	112.6	85.9	0.4	0.2
September	113.6	85.8	0.9	−0.1
October	113.8	85.5	0.2	−0.3

Job totals in the State's manufacturing establishments rose after seasonal adjustment in October for the fourth time in the past six months. All told, the seasonally adjusted 1.05 million jobs represents the second highest total in more than two years. A review of recent job gains by industry presents somewhat of a mixed-bag of results, as shown in the accompanying table. Of the eighteen industries analyzed, 11 have realized increases in employment so far this year compared to the first ten months of 1987. The same number of industries realized job gains during the 1986-1987 period. The lumber and wood products industry has turned in the largest gain in percentage terms so far in 1988, 5.8 percent. This industry also had the largest increase in 1987.



At the same time, job growth has slowed (or the rate of decline has increased) in half of the 18 industries through the first ten months of this year. These facts suggest that **the manufacturing sector as a whole is far from booming, at least with respect to job growth, but does appear to be holding its own.** Additionally, the average factory workweek remains at record high readings which should help prop up job levels over the near-term.

The Pennsylvania Manufacturing Activity Index appears to have stabilized after a healthy run-up during 1987. However, as pointed out in the past, this measure of factory production trends has topped out at its highest level in nearly a decade. Steel output declined during the month but production still remains at a relatively high level compared to trends over the past several years.

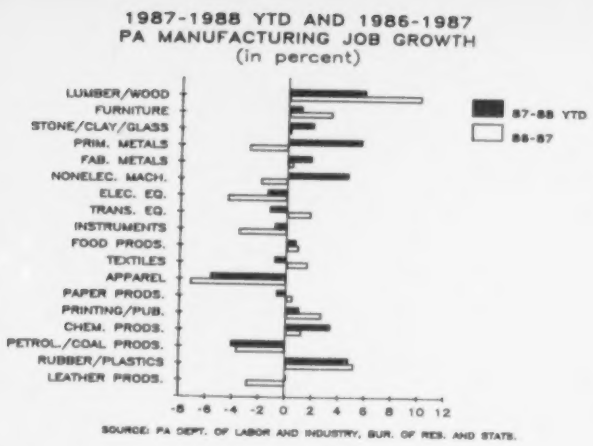
Both average and weekly earnings of Pennsylvania's factory workers continue to rise, yet these gains have, for the most part, failed to keep up with inflation. Indeed, **in each month but one so far this year, inflation-adjusted earnings have failed to surpass year-ago readings.** Such a trend is certainly worrisome and merits further attention as additional data become available. At the same time, however, it should be pointed out that broader measures of income trends, especially personal income information, show that Pennsylvanians are doing better than the manufacturing earnings data suggest.

Nonmanufacturing job gains were fairly widespread during October as nearly all industries increased the

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1988		1987	1988		1987	1988		1987
	Sept.	*Oct.*	*Oct.*	*Sept.*	*Oct.*	*Oct.*	*Sept.*	*Oct.*	*Oct.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,083	5,113	5,008	5,058*	5,069	4,962	110.8	111.0	108.7
Nonmanufacturing									
No. of wage and salary jobs (thous.)	4,024*	4,056	3,954	4,008*	4,015	3,912	124.3*	124.5	121.4
Mining	30	30	31	29	30	31	60.2	61.7	63.7
Contract construction	257*	256	242	239*	241	227	130.0*	131.2	123.1
Transportation	142*	145	145	140*	141	141	87.2*	87.6	87.8
Public Utilities	105	105	105	105	105	105	104.4	104.1	104.2
Wholesale trade	270	270	265	268	269	264	121.1	121.5	119.0
Retail trade	880*	886	876	875*	877	868	122.0*	122.3	121.0
Finance, insurance & real estate	299	298	293	298	299	293	137.0	137.3	134.8
Service & miscellaneous	1,359*	1,366	1,301	1,354*	1,358	1,292	156.9*	157.4	149.8
Federal government	143	143	142	144	144	143	112.4	112.2	111.8
State & local government	539*	557	555	555*	551	548	95.2*	94.5	94.0
Manufacturing									
No. of wage and salary jobs (thous.)	1,057*	1,056	1,052	1,050	1,054	1,050	78.3*	78.5	78.3
Durable goods	604*	605	598	601*	605	599	74.2*	74.8	74.0
Nondurable goods	453*	451	454	449	449	451	84.4*	84.3	84.8
Ave. wkly. hrs. worked by prod. workers	41.4	41.3	41.0	41.3	41.4	41.1	104.5	104.7	104.0
Total wkly. person-hours worked (mils.)	30.0*	29.9	29.5	29.7*	29.8	29.4	77.5*	77.6	76.6
Total wkly. payroll (mil. dols.)	311.3*	310.4	296.7	308.5*	310.4	296.9	137.3*	138.2	132.1
Average hourly earnings (dollars)	10.38	10.38	10.06	10.37	10.41	10.10	177.3	178.0	172.6
Average weekly earnings (dollars)	429.73	428.69	412.46	428.87	430.84	414.39	185.4	186.2	179.1
Steel production (thous. tons)	1,179	1,187	1,163	n.a.	n.a.	n.a.	64.7	59.1	57.9
Industrial electric power sales (mil. kwh)	3,929	3,863	3,876	3,902	3,757	3,837	105.6	101.7	103.9
Mining									
Anthracite coal (thous. net tons)	395	368	371	359	323	321	73.4	66.0	65.7
Bituminous coal (thous. net tons)	7,667	7,236	6,417	7,798	6,317	6,005	110.6	89.6	85.1
Construction contracts awarded (mil. dols.)									
Total	924.8	755.3	1,041.2*	899.9	739.1	869.0*	279.7	229.7	270.1*
Residential building	418.8	386.4	293.8*	376.3	365.9	259.5*	267.4	260.0	184.4*
Nonresidential building	413.8	247.2	500.9*	416.1	213.8	421.4*	383.5	197.0	388.4*
Nonbuilding (utilities and public works)	92.2	121.8	146.5	107.5	159.4	188.1	148.4	220.0	259.5
Retail Sales (mil. dols.)	6,433	n.a.	6,039†	6,544	n.a.	6,149†	n.a.	n.a.	n.a.
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,549	5,478	5,489	5,499	5,395	5,406	114.4	112.3	112.5
Unemployed									
No. of persons (thous.)	296	292	308	316	312	329	78.7	77.8	82.0
Rate (percentage of labor force)	5.1	5.1	5.3						
Rate, seasonally adjusted				5.4	5.5	5.6			
Civilian labor force, no. of persons (thous.)	5,845	5,770	5,797	5,815	5,707	5,735	111.7	109.6	110.1
Initial claims for unemployment benefits	55,407	63,887	69,330	71,279	69,479	75,375	49.8	48.5	52.6

Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1988		1987	*Month Ago*	*Year Ago*
	Sept.	*Oct.*	*Oct.*		
U.S. city average	119.8	120.2	115.3	+0.3	+4.2
Philadelphia	125.2	124.6	119.1	−0.5	+4.6
Pittsburgh	n.a.	116.3	112.8	n.a.	+3.1

[1] Total includes workers on strike. * = figure revised † = figure for September 1987 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.



number of positions on payroll after seasonal trends are discounted. The major exception is the "State and local government" category. Although 18,000 jobs were added in these establishments, many of them education-related, 22,000 additional jobs were expected based upon historical patterns. The big gainer was again the services industry which realized a seasonally adjusted gain of 4,000 jobs as the number of positions continues to set a new record on essentially a monthly basis. For nonmanufacturing as a whole, the 4.06 million jobs maintained in October represent a gain of 32,000 over September readings. Typically, jobs tend to go up by approximately 25,000 during the month, suggesting that the job picture was very solid in the State's nonmanufacturing establishments.

Construction indicators remain mixed as job levels continue on an upward track, yet measures of activity point to some slowing. The seasonally adjusted 241,000 construction jobs on payroll in October represent yet another record high. The value of contracts awarded, however, are down from 1987 readings on a year-to-date basis and the number of housing units authorized by permit was down during the first seven months of the year.

Elsewhere in nonmanufacturing, **Pennsylvania retailers apparently remain healthy with the typically robust Christmas shopping season approaching** as job levels have hovered at or near record high readings for several months running. As shown in the accompanying table, solid growth in retail sales is reflected in sales and use tax collections information for the most recent fiscal year (July 1987-June 1988). While retail sales growth came in at 9.2 percent on an annual basis during the period, sales and use tax collections grew at a healthy rate. Retail trade and services led the way with respect to collections growth.

As the end of 1988 approaches, many, though not all, indicators suggest that the year has been a good one on the economic front. Trends over the past few months, however, do suggest that the economy is in the process of slowing. Still, based on an exceptionally strong first half of the year, 1988 will surely be remembered as being "above average" with respect to the overall economy. **As is periodically stressed in the Survey, whether the recent slowdown is a sign of things to come or if it is just a temporary respite is very much dependent on trends throughout the nation.**

Pct. change in PA sales and use tax collections: FY 86/87-FY 87/88

	Pct. chg.
Ret. trade/srvs.	13.7
Ret. trade	13.4
Auto dlrs.	10.1
Furn./appl.	3.5
Gen. mchdse.	8.4
Bldg. mat.	14.6
Food stores	9.5
Other	32.8
Services	14.8
Whls. trade	6.0
Manufacturing	6.6
Public Utilities	9.4
Other	17.1
Government	20.2
Unclassified	16.4
Mot. veh. sales tax	2.1
Liquor control board	– 0.1

Source: PA Dept. of Revenue,
Office of Policy, Evaluation and Analysis

Given that the current (somewhat tentative) consensus appears to be for some slowing nationwide, the odds favor a similar scenario for Pennsylvania.

— William D. Anderson

Personal Income Report

In the "Personal Income Report" contained in the September issue of the *PBS*, the fact that personal income growth in the Commonwealth had recently surpassed national rates was highlighted. Similar encouraging news is found in trends as they relate to the second quarter of 1988. Specifically, personal income in Pennsylvania totaled $193.6 billion for the three-month period for an increase of 2.2 percent from the first quarter and 7.8 percent from the year-ago quarter. This represents slight improvement from first quarter's performance and again shows that growth in Pennsylvania was stronger than in the nation. Gains of a similar nature were turned in by the nonfarm sector of the Commonwealth's economy.

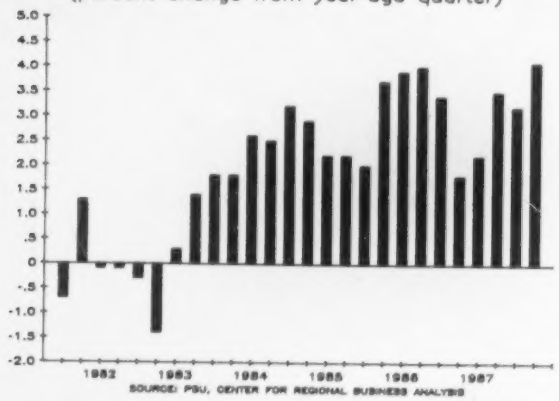
As shown in the accompanying chart, personal income growth rates in recent quarters have been among the strongest of the current economic recovery, even after adjusting for the impact of inflation. Indeed, the 4.1 percent (annual) "real" growth rate turned in during this year's second quarter

Pennsylvania personal income (seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. agp	Pct. change Yr. ago	Nonfarm personal income	Pct. change Qt. ago	Pct. change Yr. ago
1988:IIQ	193,568	2.2	7.8	192,321	2.1	7.9
1988: IQ	189,465	0.8	7.7	188,394	0.8	7.7
1988 YTD	191,517	n.a.	7.8	190,358	n.a.	7.8

Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis

"REAL" PERSONAL INCOME GROWTH IN PENNSYLVANIA
(percent change from year-ago quarter)



is the largest advance in a decade. Nearly all available evidence on the income front suggests that overall economic growth in the Commonwealth has picked up a notch, especially relative to the U.S. as a whole. In fact, a recent Bureau of the Census report noted that Pennsylvania was one of only a small handful of states in the eastern half of the U.S. to witness an increase in per capita income growth over the 1986-1987 period. Several factors will determine if such encouraging news continues, but perhaps the most important of these will be the ability of the nation's economy to continue to grow at a well-balanced pace and the future course of events in the all-important factory sector.

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